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MEMORANDUM

May 5, 2021

TO: The Chairman and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC.
FOR THE APPROVAL OF THE SEMI-ANNUAL ADJUSTMENT TO THE
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) PURSUANT
TO 26 DEL. C. § 314 (B) (5) (FILED NOVEMBER 22, 2019) – PSC DOCKET
NO. 19-0790

IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC.
FOR THE APPROVAL OF THE SEMI-ANNUAL ADJUSTMENT TO THE
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) PURSUANT
TO 26 DEL. C. § 314 (B) (5) (FILED MAY 21, 2020) – PSC DOCKET NO. 20-
0337

On November 22, 2019, Tidewater Utilities, Inc. ("Tidewater" or the "Company") filed with the Delaware Public Service Commission ("Commission") an application to increase its Distribution System Improvement Charge ("DSIC Rate") from 2.80% to 2.92% with an effective date of January 1, 2020. This increase was based on net additional plant in the amount of \$73,318, and an associated semi-annual depreciation expense of \$1,415, placed into service during the six-month period of May 1, 2019 through October 31, 2019.

On December 12, 2019, the Commission entered Order No. 9511, opening Docket No. 19-0790 and approving Tidewater's request to increase its DSIC Rate, subject to Commission Staff's ("Staff") annual review, audit and reconciliation to be performed based on the 12-month period ending December 31, 2020.

On May 21, 2020, Tidewater filed an application to increase its DSIC Rate from 2.92% to 2.97%, with an effective date of July 1, 2020. This increase was based on net additional plant in the amount of \$327,064, and an associated semi-annual depreciation expense of \$6,752, placed into service during the six-month period of November 1, 2019 through April 30, 2020.

On June 17, 2020, the Commission entered Order No. 9617, opening Docket No. 20-0337 and approving Tidewater's request to increase its DSIC Rate, subject to Staff's annual review, audit and reconciliation to be performed based on the 12-month period ending December 31, 2020.

On March 4, 2021, Tidewater provided additional information for Docket Nos. 18-1219 and 19-0336, as requested, and Staff conducted the audit and review of the DSIC Rates. The audit consisted of the procedures utilized for each of the water companies undergoing annual DSIC Rate audits. The audit concentrated on the three major components of the DSIC Rate; namely, Rate Base, Rate of Return, and Depreciation.

When conducting the audit, Staff became aware that Tidewater was earning a rate of return that exceeded its authorized rate of return. Staff reviewed Tidewater's rate of return filings for the 4 quarters of 2020 and found that Tidewater's 12-month rate of return reports for all four quarters of 2020 showed Tidewater over-earning on its authorized rate of return. Pursuant to 26 *Del. C.* § 314(b)(10), a water company is not eligible to charge a DSIC Rate if its quarterly rate of return report indicates that it is earning a rate of return that exceeds the authorized rate of return established in its last general rate filing.¹ Thus, Tidewater should not have had a DSIC Rate in effect during the second, third, and fourth quarters of 2020, nor for the first quarter of 2021.

On March 31, 2021, the Commission entered Order No. 9767, which directed Tidewater to reset its DSIC Rate to 0.00% effective April 1, 2021, and to submit by April 30, 2021, a plan to refund all DSIC revenues collected since March 31, 2020, with interest. Neither Staff nor DPA objected to Order No. 9767.

On April 22, 2021, Tidewater filed a refund plan ("Refund Plan") that included the total amount of DSIC revenue plus interest to be refunded to customers along with the manner in which it plans to apply the refund to customers. Neither Staff nor DPA objected to the filed Refund Plan.

¹ In Tidewater's last general rate case, PSC Docket No. 13-466, the Commission established an authorized rate of return of 7.92%. PSC Order No. 8611, dated August 19, 2014.

In accordance with Order No. 9767, Staff continued to conduct the DSIC audit with respect to the first quarter of 2020. Staff's findings are as follows:

Findings for PSC Docket No. 19-0790: Effective Period January 1, 2020 – June 30, 2020

Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

The DSIC revenue requirement for the period January 1, 2020 through March 31, 2020 associated with this Docket was \$233,571. During this time period, the Company collected \$200,684 in DSIC revenues. This resulted in an under-collection of \$32,886 for this period, which will be deducted from the total refund amount.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity with statutory requirements. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain whether appropriate expenditures were included in the Rate Base components of the DSIC Rate. Based on its review, Staff believes that the plant additions portion of the DSIC Rate calculation are accurate.

Finally, Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The Company's calculation of total depreciation comported with the amount posted to the General Ledger, and the rates were the same as those approved by the Commission.

Therefore, Staff recommends that the Commission approve as final the DSIC Rate of 2.92%, which was in effect on a temporary basis from January 1, 2020 through March 31, 2020.

The remaining DSIC revenue collected under the DSIC Rate of 2.92% during the time period of April 1, 2020 through June 30, 2020, in the amount of \$216,602, will be refunded with interest according to the filed Refund Plan.

Findings for PSC Docket No. 20-0337: Effective Period July 1, 2020 – December 31, 2020

As previously addressed in this memo, Tidewater should not have charged a DSIC Rate during this time period. Therefore, the DSIC revenue collected during the time period of July 1, 2020 through December 31, 2020, in the amount of \$548,043, will be refunded, with interest, according to the filed Refund Plan.

Conclusions and Recommendations

As noted, pursuant to Order No. 9767, Tidewater is to refund all DSIC revenue collected since March 31, 2020, with interest. Tidewater collected \$281,960 in DSIC revenue for the time period of January 1, 2021 through March 31, 2021. This DSIC revenue therefore will be refunded, with interest, according to the filed Refund Plan.

As calculated by Tidewater, and verified by Staff, the total amount of DSIC revenue that should not have been collected is \$1,046,605. The total amount of interest is \$20,519. As mentioned previously in this memo, Tidewater's under-collection amount of \$32,886 from the period of January 1, 2020 through March 31, 2020, will be deducted from the total refund amount. Therefore, the total refund amount that Tidewater will refund to customers is \$1,034,238.

Staff shared its findings with the Company and the DPA, and all parties are in agreement. Accordingly, Staff recommends that the Commission approve the conditional rates from PSC Order No. 9511 as final for the period of January 1, 2020 through March 31, 2020. Staff also recommends that the Commission keep Docket Nos. 19-0790 and 20-0337 open until Tidewater has completed the refund, submitted a refund report, and Staff has had the opportunity to verify that the refund was completed in accordance with the Refund Plan.